

SBA

Small Business
Administration

EB-3

M

anagement Issues for the

Emerging
Business
Series

Building America's Future

growing Business

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INTRODUCTION

Effective management is the key to the establishment and growth of the business. The key to successful management is to examine the marketplace environment and create employment and profit opportunities that provide the potential growth and financial viability of the business. Despite the importance of management, this area is often misunderstood and poorly implemented, primarily because people focus on the output rather than the process of management.

Toward the end of the 1980s, business managers became absorbed in improving product quality, sometimes ignoring their role vis-i-vis personnel. The focus was on reducing costs and increasing output, while ignoring the long-term benefits of motivating personnel. This shortsighted view tended to increase profits in the short term, but created a dysfunctional long-term business environment.

Simultaneously with the increase in concern about quality, entrepreneurship attracted the attention of business. A sudden wave of successful entrepreneurs seemed to render earlier management concepts obsolete. The popular press focused on the new cult heroes Steve

Jobs and Steve Wozniack (creators and developers of the Apple Computer) while ignoring the marketing and organizing talents of Mike Markula, the executive responsible for Apple's business plan.* The story of two guys selling their Volkswagen bus to build the first Apple computer was more romantic than that of the organizational genius that enabled Apple to develop, market and ship its products while rapidly becoming a major corporation.

In large businesses, planning is essential for developing a firm's potential. However, many small businesses do not recognize the need for long-range plans, because the small number of people involved in operating the business implies equal responsibility in the planning and decision-making processes. Nevertheless, the need for planning is as important in a small business as it is in a large one.

This publication focuses on the importance of good management practices. Specifically, it addresses the responsibilities of managing the external and internal environments. It can provide a basis for confronting the challenges of the 1990s.

*References to large corporations do not imply SBA's endorsement of their products or services.

MANAGING THE EXTERNAL ENVIRONMENT

Two decades ago, Alvin Toffler suggested that the vision of the citizen in the tight grip of an omnipotent bureaucracy would be replaced by an organizational structure of "ad-hocracy."* The traditional business organization implied a social contract between employees and employers. By adhering to a fixed set of obligations and sharply defined roles and responsibilities, employees received a predefined set of rewards.

The organizational structure that Toffler predicted in 1970 became the norm 20 years later, and with it came changed concepts of authority. As organizations became more transitory, the authority of the organization and firm

was replaced by the authority of the individual manager. This entrepreneurial management model is now being replicated throughout society. As a result, the individual business owner must internalize ever increasing organizational functions.

Another change in today's business environment is dealing with government agencies. Their effect on the conduct of business most recently appears to have increased. As industries fail to achieve high levels of ethical behavior or individual businesses exhibit specific lapses, the government rushes in to fill the breach with its regulations.

To identify the impact of government agencies on your business and the measures you can take to challenge that

*A. Toffler, *Future Shock* (New York: Bantam Books, 1970),

124-125.

impact, consider the following questions.

U.S. Small Business Administration

Which agencies influence how you conduct business?

Local

State

Federal

Who are the key contacts in each agency?

9 Are current public policy proposals expanding the impact of the agency?

Do you know how to challenge agency findings?

* Are you ready to work with the agency over the long-term?

DO You know how to use attorneys effectively?

What regulations currently affect your business?

MANAGING THE INTERNAL ENVIRONMENT

Human Resource issues

Ensuring Open Communications

Effective communications play an integral role in managing and operating any successful business. With open communications, changes and their effects on the organization are quickly shared. Your firm then has the time and skills needed to respond to changes and take advantage of evolving opportunities.

The following checklist, addressing how you would respond to an employee's suggestion, provides an assessment of the communication process in your business. Place a check next to the statements that are commonly heard in your business.

Statement

Face facts, it's unrealistic.
Who else has done it?

-

It's not your problem.
Fill out form XX/xx, revised.

-

It won't work.
Bring it to the committee.

-

We don't have the time.

You think what? You're joking!

Everybody knows that that's foolish.
We can't afford to think about it.

Don't you have better things to do?
Are you some kind of a radical?

We're too small/big for that.

Impossible; our main product line would be obsolete.
The boss would never consider it.

It's contrary to company policy.

Carefully consider any statements that you have checked. This may indicate that management is inflexible and unresponsive to employee suggestions. Management that is unable to respond immediately to changes in the market signals an inflexible, unstable firm. In the rapidly changing business environment, such management can mean eventual failure for your business. If you haven't developed such a checklist, do so. It will help you determine if and where adjustments are needed in your management staff.

Balancing Schedule% Stress and Personnel

Without organization and good management, the compressed time schedules associated with modern business can cause strain and make extraordinary demands on people. An effective management structure can reduce stress and channel the productive capacity of employees into business growth and profits.

Setting Duties, Tasks and Responsibilities

An organization is characterized by the nature and determination of employees' duties, tasks and

responsibilities. While many organizations use different methods for determining these, it is essential that they be clearly defined.

The core of any organization is its people and their functions. Duties, tasks and responsibilities often evolve in an ad hoc manner. A typical firm starts with a few

people, often one, performing all duties. As the firm grows, others are hired to fill specific roles, often on a functional basis. Roles that were handled by consultants and specialists outside the firm now are handled internally. As new needs emerge, new roles are developed. Just as an emerging business develops an accounting system, it should also develop a human resource system. For instance, the following employee information should be available and checked for accuracy at least once each year.

- Name
- Address
- Nationality (immigration status)
- Marital status and dependents
- Hire date
- Company job history:
 - Title and code
 - Performance
 - Location
- Salary rate and history
- Education, including degrees
 - Specialty training
 - Transcripts as appropriate
- Pre-employment work experience:
 - Key responsibilities and levels
- Professional licenses or certificates
- Professional publication and speaking engagements
- Teaching experience

Language abilities:

- Reading
- Writing
- Speaking

• Leadership evidence:

- Company
- Civic
- Other

• Relocation preferences and limitations

• Travel experience and preferences

• Career goals

Review your personnel files periodically to ensure that the information is correct and current. Implement a system that will make updating personnel files a fairly simple, routine, yet confidential process.

Business Team

The apex of an effective organization lies in developing the business team. Such a team involves delegating authority and increasing productivity. Assess the effectiveness of your business team with the following checklist:

The leader of the team is respected by the members.

The abilities of all team members are respected.

A team spirit is evident through activities.

• Individual members compensate for weaknesses in each other.

• Jokes are not disparaging.

• A genuine feeling of being part of the best is evident.

• The work area is self delineated and reflects a spirit.

Mistakes result in corrective action, not retribution.

Each member understands the importance of his or her contribution.

The team can explore new areas of activity.

Security of employment is evident.

Controlling Conflict

Another key to successful management lies in controlling

conflict. Conflict cannot be eliminated from either the business or the interpersonal activities of the enterprise. A measure of the organization's success is the degree to which conflict can be exposed and the energies associated with it channeled to develop the firm. Although

establishing policies and procedures represents the tangible aspect of organization and management, the mechanisms to tolerate and embody challenges to the established operation serve as the vital essence of a firm that will survive and prosper.

Structural Issues

Organization

The effectiveness of a particular organizational form depends on a variety of internal and external events, for example:

- Competitors (number or activity)
- Technology (internal or external)
- Regulatory environment
- Customer characteristics
- Supplier characteristics
- Economic environment
- Key employees
- Growth
- Strategy (including new products and markets)

Even though you may discover that certain events are affecting your business, be careful not to change the organizational structure of your firm without discussing it with your management team. Employees generally can accomplish goals despite organizational structures imposed by management. Because restructuring involves spending a lot of time learning new rules, implementing a new organizational structure is costly.

Structure

The essence of a successful organization can be more simply summarized than implemented. The following checklist can help you determine measures to ensure your management structure is adequate. Check the entries that apply to your firm and also find out what measures your company needs to take to improve its management structure.

Key market and customers are understood.

Technology is mastered.

Key objectives are articulated and shared.

Major functions are identified and staffed.

A hierarchy of relationships is established.

A business team is in place and functioning.

Measurable results are well above industry standards.

Employees are the best source of new hires.

Policy and Procedural Issues

Authority

The central element of organizational management is authority. Through authority your firm develops the structure necessary to achieve its objectives.

A. L. Stinchcombe summarized the role of authority succinctly when he stated "any administrative system that decides on the use of resources is also a system of authority directing the activities of people."*

The authority that once was conferred by either owning a small business or having a position in the bureaucracy of a larger firm has been replaced by technical competence (including that of forming and running the business).

Forces external to your business may emphasize the elements of granted versus earned authority. Once the owner-manager controlled the entire business, but suppliers, customers, unions and the government have severely limited the ability of the business owner-manager to take independent action.

A primary component of authority is the exercise of control within the organization. A thorough system of controls ensures the firm's operation and provides a mechanism for imposing authority. Internal controls include the provision that authority be delegated and circumscribed; examples of these provisions follow.

Place a check by the provisions that apply to your firm. Consider implementing controls over areas that you have notchecked.

*A. L. Stinchcombe, *Economic Sociology* (New York: Academic Press, 1983), 137.

Approval **for disbursements** of cash and regular accounting.
Reconciliation of bank statements.
Periodic count and reconciliation of inventory records.

Approval of pricing policies and exemptions.
Approval of credit policies and exemptions.
Review of expense and commission accounts.

Approval of purchasing and receiving policies.
Review of payments to vendors and employees.

Approval of signature authorities for payments.
Review of policies.

Delegation is a key to the effective exercise of authority

in your business. By delegating limited authority to accomplish specific tasks, the talents of employees in the organization can be used to upgrade the skills and experience of the manager. The following checklist enables you to determine if you are taking advantage of opportunities to delegate authority.

Is your time consumed by daily chores?

Do you have time for the following:

- Training and development of subordinates?
- Planning?
- Coordinating and controlling work of subordinates?
- Visiting customers and subordinates regularly?
- Remaining involved in new product development?
- Visiting branch locations regularly?
- Attending business meetings outside your business?

*** Participating in civic affairs?**

Is no one on your staff as good as you are?

To effectively delegate responsibility and authority in your organization, you must:

- Accept the power of delegation.
- * Know the capabilities of subordinates.
 - Ensure that specific training is available.
- * Select specific responsibilities to be delegated.
 - Clearly define the extent and limits of delegation.
 - Match each with necessary authority.

Provide periodic monitoring and interest.

- Restrain the impulse to insist on how to do something.
 - Remember there are many ways to accomplish a specific objective.
- Assess results and provide appropriate feedback.
- Praise and criticize.

The skills and abilities of each level of authority can be increased by effectively delegating authority throughout any organization.

Management by Objectives

Many firms have embraced management by objectives (MBO) as a way to effectively integrate people into the organization. An MBO system provides a structure to ensure coordination of the organization and to effectively

delegate authority and responsibilities. Establishing an MBO system is a continuing process and includes the following steps:

- Subordinates submit proposals for objectives and means of measuring progress.
- A supervisor assesses proposed objectives in light of evolving business needs, his or her personal perspective and the ability of the company to ensure rewards for attaining goals.

Supervisor and subordinate discuss the objectives and the standards of measurement with appropriate timetables and potential corrective actions.

Supervisor and subordinate appraise results.

Supervisor and subordinate negotiate results (including changes necessitated during the year), establish rewards and begin the cycle again.

A successful MBO system is tricky to implement and maintain, because it requires a high degree of honesty in the organization. Such a system can fail in many ways, such as when:

- Managers don't have clear objectives for their units.
- Managers set objectives that are too high (maybe unconsciously).
- Subordinates neglect objectives (maybe unconsciously).
- Responsibilities are ill-defined and remain so.
- Systems where they are lacking.
- Authority is inconsistent with responsibilities.
- Simple, measurable activities are emphasized over substantive decisions and other, important activities.
- Success is measured by the ability to please.
- Managers emphasize how something is achieved rather than what is achieved.
- Policies do not guide action.
- Openness is not possible—game playing is the norm.
- Secondary goals are not specified, causing subordinates to guess what superiors want.
- Neither sufficient support nor resources are provided as part of the MBO contract.
- New ways of doing things are not allowed.
- Ability to give and withdraw rewards is constrained.
- Management style creates and encourages chaos.
- The line between flexibility and rigidity is lost.
- Objectives need adjustment because reality has changed.
- Excessive, chronic flexibility indicates weakness in the objective-setting process.
- A corporate plan fails to shape the mission of the firm.

At best the MBO system ensures coordination among the various aspects of the organization through the self-management evaluation process. At worst, it forces employees into a situation in which they are perceived as being either poor performers (failing to meet personally set objectives) or poor managers (failing to set objectives high enough or to provide critical self-assessment). The success of an MBO system depends on the manager's ability to ensure that objectives are fair and consistent with the firm's needs and to reward successful performance.

Operating Reports

Operating reports form the organizational basis of your business. Such reports mirror the organization, its structure and function. They define key relationships between employees and can either minimize or increase organizational stress.

For many businesses, the following reports form the basis

frequency of each report depends on the nature, organization of your business). Check the report firm currently generates. Consider creating

Case reports (daily, weekly, monthly)

New orders and backlog (weekly, monthly)
Shipments/sales (weekly, monthly)

Employment (monthly)
Inventory out of stock (weekly, monthly)
Product quality (weekly, monthly)
Accounts receivable, aging accounts (monthly)
Weekly overdue accounts
Returns and allowances (monthly)
Production (weekly, monthly)

Reporting must be kept current to allow for timely identification and correction of problems before

damage to the organization occurs.
Too much reporting, as well as inappropriate

can be as destructive as too little reporting. For instance, the CEO of a major industrial firm who receives daily production and inventory reports by model can lose his or her ability to maintain an overall perspective. Thus, operating managers must attempt to identify and solve local problems and take advantage of local opportunities within their own authority. Inappropriate reporting compromises management's ability to leverage individual skills and abilities.

Operating reports not only provide essential data that enable management to accomplish its objectives, they also focus staff's attention on the organization's goals. If reporting is not taken seriously, employees may deal with customers, suppliers and each other in a similarly trivial manner.

To avoid inappropriate reporting, review reporting policies annually to ensure that reports are appropriate and contain the information needed to make sound management decisions.

Other Issues

Risk Management

Every organization is vulnerable to low probability events that could have a potentially disastrous effect. A small or new business is no exception, although it is easy to ignore the probability of such events under the pressures of developing and maintaining a business. Identifying and quickly dealing with such unlikely events is primarily the responsibility of management. Also, only management has the ability to assess the full potential impact of these events on the overall organization. Some of the potentially disastrous events that may affect your business are listed below. Periodically review the list to ensure your current insurance policies adequately cover you.

- Theft of property:
 - Stealing
 - Embezzlement
- Lying
- Breach of laws:
 - Local
 - State
 - Federal
- Computer crime
- Fire and explosion:
 - Accidental
 - Arson
- Kickback, bribery, illegal contributions
- Fraud, gambling

Successful management is founded on the mastery of a myriad of details. While management schools teach the importance of focusing attention on major issues affecting

*** Tornado, flood, lightning, freezing**

◦ Environmental dangers:

- Hazardous spills
- Air/water/ground pollution

Strike, sit-down

Discrimination

Sabotage

Determine how vulnerable your business is to these and other such risks by assessing their probability and impact. Consider actions that you can take to lower the probability of their occurring, i.e., ways to control your risk. Review the checklist each year to ensure the future of your firm is not imperiled through neglect.

Consultants

Consultants can provide a valuable perspective in developing an organization. A variety of circumstances can trigger the need for a consultant, including

- Need for funding

◦ Development of a business plan (strategy)

◦ Operational shortfalls:

- Late delivery
- High costs
- High employee turnover
- Climbing inventory

* Loss of market share

◦ A lack of direction or sense of malaise

However, consultants cannot solve problems. True solutions must come from within your organization and must be implemented daily.

an increasingly structured society, inattention to even one minor detail can result in significant disruption of the business, or even its failure. Appendix A includes a

CONCLUSION

the business, practical managers realize the major issues are the variety of small aspects that form the business. In

checklist to help you review your management structure.

APPENDIX A: CHECKLIST FOR AN EFFECTIVE ORGANIZATION

The following checklist will help you identify and determine the effectiveness of the management and organizational structure of the firm. If you answer "yes" to most of the following questions, you are effectively managing your firm. A "no" answer indicates that you need to focus on this management issue.

Are responsibilities clear and matched by authority?
Is your business structure clear, yet flexible?

y/n

Are communications focused on finding solutions rather than placing blame?
Do people have the information and resources necessary to do an excellent job?

Do you and your employees care about the business?

Does staff come in early and stay late on their own initiative?

Are mechanisms for conflict resolution working?

Is disorder minimized and channeled?

Can people joke with and about each other and you?

Does a corporate plan spell out the firm's vision?

Do employees pitch in, unasked, during a crisis?

Do customers and suppliers prefer to do business with you?

y/n

APPENDIX B: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy contact your nearest SBA Office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- Service Corps of Retired Executives (SCORE), a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- Small Business Development Centers (SBDCs), sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- Small Business Institutes (SBIs), organized through SBA on more than 500 college campuses nationwide. These institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)

P.O. Box 100
Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C

Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal

agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service

Alcohol, Drug Abuse and Mental Health Administration

5600 Fishers Lane

Rockville, MD 20857

Drug Free Workplace Helpline: **1-800-843-4971**. Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline:

1-800-662-4357. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: **1-800-729-6686** toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

Trade association information

Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

Books

Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.

Magazine and newspaper articles

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

This publication was printed at the UNICOR Print Plant Federal Correctional Institution, Fort Worth, Texas.